

## Message Text

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PAGE 01 ROME 01438 301842Z

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 9292

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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TAGS: ECON, EFIN, IT

SUBJ: ITALIAN PRICE PERFORMANCE

1. SUMMARY. PRELIMINARY PRICE DATA ARE NOW AVAILABLE FOR DECEMBER 1974 SHOWING AVERAGE WHOLESALE PRICE RISE DURING CY 1974 OF 41 PERCENT AND RISE IN RETAIL AND COST-OF-LIVING INDICES OF 19 PERCENT. (DIFFERENCE BETWEEN LAST TWO INDICES IS THAT COST-OF-LIVING INDEX IS BASED ON WEIGHTED MARKET BASKET.) WHILE THESE FIGURES ARE ADMITTEDLY HIGH, DURING LAST FOUR MONTHS OF 1974 ALL THREE SERIES SHOWED ENCOURAGING DECLINE IN RATE OF INCREASE. /END SUMMARY/.

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PAGE 02 ROME 01438 301842Z

2. PRELIMINARY 1974 PRICE DATA ARE NOW AVAILABLE FOR WHOLESALE,

RETAIL AND COST-OF-LIVING INDICES. INCREASE IN AVERAGE 1974 INDICES COMPARED TO 1973 AVERAGES ARE SHOWN IN TABLE 1 BELOW. SPOT INCREASES FROM DECEMBER 1973 TO DECEMBER 1974 ARE SHOWN IN TABLE 2. TABLE 3 SHOWS PROGRESSIVE DECELERATION IN PRICE RISES FOR ALL THREE INDICES FOR PERIOD SEPTEMBER-DECEMBER 1974.

3. PRICE INDICES IN ITALY IN 1974 INCREASED FASTER THAN IN MOST OTHER INDUSTRIAL COUNTRIES, WITH PROBABLE EXCEPTION OF JAPAN. WHOLESALE PRICES, IN PARTICULAR, ROSE VERY RAPIDLY, IN PART REFLECTING RISE IN PETROLEUM PRICES. (LATEST PUBLISHED BREAKDOWN OF WHOLESALE INDEX SHOWS 142 PERCENT INCREASE IN FUELS AND LUBRICANTS FROM OCTOBER 1973 TO OCTOBER 1974.) IN ADDITION TO PASS-THROUGH TO RETAIL LEVEL OF HIGHER CRUDE OIL PRICES THROUGH SEVERAL INCREASES IN GASOLINE AND OTHER PETROLEUM PRODUCTS, GOI ALSO DECONTROLLED CERTAIN INDUSTRIAL PRODUCTS AND LARGE CONSUMPTION ITEMS AT MID-YEAR AND INTRODUCED SOME RISES IN PUBLIC SERVICE RATES, IN PART AS DELIBERATE MEASURES TO DISCOURAGE CONSUMPTION.

4. IMPROVEMENT IN WHOLESALE PRICE INDEX BEGAN AROUND MID-YEAR AFTER VERY SHARP INCREASE IN FIRST QUARTER. RISE OF ONLY 0.1 PERCENT IN DECEMBER WAS MOST FAVORABLE OUTCOME FOR ANY MONTH. IMPROVEMENT IN PRICE PICTURE AT RETAIL LEVEL IS MORE RECENT, ALTHOUGH INCREASE WAS LESS THAN 1 PERCENT IN DECEMBER, BOTH FOR RETAIL INDEX AND FOR COST-OF-LIVING INDEX, IN BOTH CASES FOR FIRST TIME IN 1974.

5. GOI GOAL FOR RETAIL PRICE INCREASE IN 1975 IS 16 PERCENT. DECEMBER 1974 OECD AND EMBASSY ESTIMATES SHOWED HIGHER FIGURE FOR RETAIL PRICES OF 21 PERCENT FOR 1975. EMBASSY BELIEVES THAT SOMEWHAT BETTER PERFORMANCE MAY BE POSSIBLE IN RANGE 16-21 PERCENT ON BASIS LATEST DATA. HOWEVER, SHARP RISE IN 1974 INDICES MEANS THAT CALCULATION OF PRICE RISES IN EARLY 1975 WILL BE MADE FROM RATHER LOW EARLY 1974 BASE. FOR EXAMPLE, EVEN IF DECEMBER 1974 PRICE INDICES WERE TO STABILIZE COMPLETELY AT THAT LEVEL AND REMAIN THERE THROUGHOUT 1975, AVERAGE INCREASE IN 1975 INDICES OVER 1974 WOULD BE 7.1 PERCENT FOR WHOLESALE PRICES, 10.0 PERCENT FOR RETAIL PRICES AND 10.6 PERCENT FOR COST OF LIVING.

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PAGE 03 ROME 01438 301842Z

6. TABLE 1 - 1974 AVERAGE PRICE RISES

WHOLESALE	40.7
RETAIL	19.1
COST-OF-LIVING	19.4

7. TABLE 2 - DECEMBER 1974/DECEMBER 1973 PRICE RISES

WHOLESALE	33.7
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RETAIL	24.5
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COST-OF-LIVING	25.3
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8. TABLE 3 - MONTHLY PRICE CHANGES LATE 1974

	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
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WHOLESALE	1.4	1.1	0.3	0.1
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RETAIL	2.9	1.9	1.9	0.8
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COST-OF-LIVING	3.3	2.1	1.5	0.9.
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